

Consolidated Financial Results for the Three Months of the Fiscal Year Ending March 31, 2019

August 10, 2018

SHINKAWA LTD.

(URL <https://www.shinkawa.com/>)

Listing	First Section of Tokyo Stock Exchange
Security code	6274
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Scheduled date to file Quarterly Report	August 14, 2018
Scheduled date to commence dividend payments	—
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	None

1. Consolidated Financial Results for the Three Months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

(Amounts are rounded off to nearest million yen.)

(1) Consolidated Operating Results

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating loss		Ordinary loss		Loss attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2018	1,865	(36.0)	(849)	-	(890)	-	(939)	-
Three months ended June 30, 2017	2,915	45.1	(412)	-	(363)	-	(428)	-

(Note) Comprehensive income : Three months ended June 30, 2018: (1,031) million yen
Three months ended June 30, 2017: (485) million yen

	Loss per share	Diluted profit per share
	Yen	Yen
Three months ended June 30, 2018	(51.67)	-
Three months ended June 30, 2017	(23.55)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	25,853	20,513	79.3
As of March 31, 2018	24,959	21,545	86.3

(Reference) Equity: As of June 30, 2018: 20,513 million yen As of March 31, 2018: 21,545 million yen

2. Dividends

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2019	-				
Fiscal year ending March 31, 2019 (Forecast)		0.00	-	-	-

(Note) Revisions to the dividend forecasts announced recently: None
The dividend forecast for the fiscal year ending March 31, 2019 is undecided.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019

(from April 1, 2018 to March 31, 2019)

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating loss		Ordinary loss		Loss attributable to owners of parent		Loss per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2018	6,300	(12.3)	(1,350)	-	(1,440)	-	(1,530)	-	(84.19)
Fiscal year ending March 31, 2019	18,900	24.2	(1,270)	-	(1,330)	-	(1,500)	-	(82.54)

(Note) Revisions to the Forecast of Consolidated Financial Results announced recently : Yes

*** Notes**

(1) Changes in significant subsidiaries during the three months of the fiscal year ending March 31, 2019
(Changes in specified subsidiaries that caused change in scope of consolidation) : None

(2) Application of an accounting procedure especially for the preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies, accounting estimates and restatement of the consolidated financial statements

1) Changes in accounting policies due to revision of accounting standards : None

2) Changes in matters other than 1) above : None

3) Changes in accounting estimates : None

4) Restatement : None

(4) Number of common shares issued

1) Number of shares issued at the end of periods (including treasury stock) :

As of June 30, 2018	20,047,500 shares
As of March 31, 2018	20,047,500 shares

2) Number of treasury stock at the end of periods:

As of June 30, 2018	1,874,594 shares
As of March 31, 2018	1,874,404 shares

3) Average number of shares during periods:

Three months ended June 30, 2018	18,173,025 shares
Three months ended June 30, 2017	18,173,518 shares

*** This report is not subject to the quarterly review by certified public accountants or audit corporation.**

*** Explanation regarding the appropriate use of projections and other special notes**

(Notes for the forward-looking statements)

The forward looking statements, including business results forecast, contained in this document are based on information available to the SHINKAWA Group and certain assumptions deemed reasonable as of the date of this document and the Company does not guarantee that such forecast will be achieved. Actual business results may differ substantially due to a number of factors.

(Method to obtain supplemental materials for quarterly financial documents)

Supplemental materials for the quarterly financial documents is scheduled to be released on the Company's web site.

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1. Qualitative Information on the Quarterly Financial Statements for the Period under Review

(1) Explanation of Operating Results

During the first quarter of the fiscal year ending March 31, 2019, the global economy progressed steadily with positive and negative factors. These include a continuous improvement in the employment and income environment of the United States and Europe, a slight recovery in personal consumption in Japan, and a sign of slowdown in the Chinese economy. Meanwhile, uncertain situations that may lead to some downturn risks for the global economy still continue, such as rising trade tensions due to protectionism in the United States and geopolitical risk in the Middle East.

With the advent of the data economy in the semiconductor industry, a demand for DRAMs for server use has been rapidly increasing, and a large amount of capital investment in the memory market, especially in DRAMs, has been undertaken. In addition, as the Chinese government has introduced the state-backed investment fund with tens of billions of dollars for its semiconductor industry, Chinese manufacturers are actively investing capital. As a result, the semiconductor manufacturing equipment market has continued to grow.

In the business environment surrounding the SHINKAWA Group, there has been a robust increase of orders and new inquiries for memories for server usage. However, demand for mobile-related products has slowed down and the equipment investment is restrained due to the fact that the spread of smartphones has reached a high level in the market. Moreover, in the market for advanced packages that SHINKAWA has focused on, the manufacturing trend is changing from the use of wire bonders to flip-chip bonders, and the market for wire bonders is shifting to low-pin count devices, such as LED and discrete devices.

Under these circumstances, the Group has listed “Enhancing existing businesses”, “Creating new business values”, and “Revitalizing the organization and fostering human resources” as three basic strategies of the medium-term management plan “Challenge Shinkawa 2020” and strived to come back to the top of the industry. In June, the Group welcomed PFA Corporation as a member to expand the market and improve the corporate value. The newly formed group will promote technological innovation to meet demand for electronic component mounting as a new application for wire bonders. To respond flexibly to changes in the market, the Group will accelerate product development focusing on growing markets while acquiring new customers. Although sales of die bonders maintained the same level compared with the same period the previous year, sales of wire bonders decreased year-on-year. Meanwhile, sales of flip-chip bonders increased compared with the sales during the same period the previous year thanks to strong equipment investment in the YSB55w for automotive applications.

As for the consolidated performance of the Group for the first quarter of the fiscal year ending March 31, 2019, net sales decreased 36.0% from the corresponding period of the previous fiscal year to 1,865 million yen. An operating loss of 849 million yen was recorded compared with an operating loss of 412 million yen for the previous fiscal year and an ordinary loss of 890 million yen was posted compared with an ordinary loss of 363 million yen a year earlier. As a result, loss attributable to owners of parent of 939 million yen was recorded for the first quarter of the fiscal year ending March 31, 2019 compared with loss attributable to owners of parent of 428 million yen a year earlier.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year ending March 31, 2019 increased by 894 million yen from the end of the previous fiscal year to 25,853 million yen. Major increases were 1,374 million yen in work in process, and 756 million yen in merchandise and finished goods, and major decreases were 1,583 million yen in notes and accounts receivable - trade.

Total liabilities at the end of the first quarter of fiscal year increased 1,925 million yen from the end of the previous fiscal year to 5,340 million yen. Major increases were 800 million yen in long-term loans payable and 689 million yen in other current liabilities.

Net assets at the end of the first quarter of the fiscal year decreased 1,031 million yen from the end of the previous fiscal year to 20,513 million yen. Major decreases were 939 million yen in retained earnings.

As a result, the equity ratio fell from 86.3% at the end of the previous fiscal year to 79.3%.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

In light of the market environment and the status of orders received recently in the semiconductor industry, in which the Company operates, the Company conducted a detailed review of the earnings forecasts of the Group. Consequently, the Company has revised its earnings projections for the fiscal year ending March 31, 2019.

For details, please refer to the "Notice of Revisions to the First Half and Full Year Consolidated Financial Forecasts for the Fiscal Year ending March 31, 2019" announced today (August 10, 2018).

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	Millions of yen	
	As of March 31, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	6,452	5,467
Notes and accounts receivable - trade	4,971	3,388
Electronically recorded monetary claims	283	374
Merchandise and finished goods	2,589	3,345
Work in process	1,223	2,597
Raw materials and supplies	762	890
Other	783	464
Allowance for doubtful accounts	(1)	(3)
Total current assets	17,064	16,522
Non-current assets		
Property, plant and equipment		
Land	3,217	3,809
Other, net	1,796	2,123
Total property, plant and equipment	5,013	5,932
Intangible assets		
Goodwill	—	570
Other	43	86
Total intangible assets	43	656
Investments and other assets		
Other	2,840	2,791
Allowance for doubtful accounts	—	(49)
Total investments and other assets	2,840	2,743
Total non-current assets	7,896	9,331
Total assets	24,959	25,853
Liabilities		
Current liabilities		
Accounts payable - trade	1,238	1,637
Current portion of long-term loans payable	—	200
Income taxes payable	72	31
Provision for bonuses	222	156
Provision for product warranties	273	266
Other	379	1,069
Total current liabilities	2,185	3,358
Non-current liabilities		
Long-term loans payable	—	800
Net defined benefit liability	852	841
Other	378	340
Total non-current liabilities	1,230	1,982
Total liabilities	3,415	5,340
Net assets		
Shareholders' equity		
Capital stock	8,360	8,360
Capital surplus	8,907	8,907
Retained earnings	6,289	5,350
Treasury shares	(3,150)	(3,151)
Total shareholders' equity	20,406	19,467
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	944	873
Foreign currency translation adjustment	203	180
Remeasurements of defined benefit plans	(9)	(6)
Total accumulated other comprehensive income	1,139	1,047
Total net assets	21,545	20,513
Total liabilities and net assets	24,959	25,853

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
 Quarterly Consolidated Statements of Income
 Three months ended June 30, 2017 and 2018

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	2,915	1,865
Cost of sales	1,960	1,315
Gross profit	956	550
Selling, general and administrative expenses	1,368	1,399
Operating loss	(412)	(849)
Non-operating income		
Interest income	3	2
Dividend income	26	18
Foreign exchange gains	18	—
Other	3	3
Total non-operating income	50	23
Non-operating expenses		
Interest expenses	1	2
Foreign exchange losses	—	62
Other	0	0
Total non-operating expenses	1	65
Ordinary loss	(363)	(890)
Extraordinary losses		
Loss on retirement of non-current assets	—	2
Total extraordinary losses	—	2
Loss before income taxes	(363)	(892)
Income taxes - current	23	8
Income taxes - deferred	43	39
Total income taxes	65	47
Loss	(428)	(939)
Loss attributable to owners of parent	(428)	(939)

Quarterly Consolidated Statements of Comprehensive Income
 Three months ended June 30, 2017 and 2018

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Loss	(428)	(939)
Other comprehensive income		
Valuation difference on available-for-sale securities	(48)	(72)
Foreign currency translation adjustment	(6)	(23)
Remeasurements of defined benefit plans, net of tax	(3)	2
Total other comprehensive income	(57)	(92)
Comprehensive income	(485)	(1,031)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(485)	(1,031)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes to Significant Changes in the Amounts of Shareholders' Equity)

Not applicable

(Changes to the Scope of Consolidation and Application of the Equity Method)

Important Changes to the Scope of Consolidation

Within the first quarter of the fiscal year ending March 31, 2019, the Company successfully acquired Pioneer FA Corporation (now known as PFA Corporation) which falls under the scope of consolidation.

The acquisition date has been set to June 30th, 2018. As a result, the Consolidated Balance Sheet for this period reflects the acquisition, while the Consolidated Statements of Income and Comprehensive Income do not include the results of the acquired company.

(Specific Accounting Procedure Applied for Preparation of Quarterly Consolidated Financial Statements)

Computation of Tax Expenses

In regards to tax expenses of consolidated overseas subsidiaries, the effective tax rate after application of tax effect accounting for the income before income taxes and minority interests of the current fiscal year including the period under review is estimated through fair value, and the income before income taxes and minority interests is then multiplied by this amount.

Income taxes-deferred of consolidated overseas subsidiaries are included in income taxes-current.

(Additional Information)

The Company has applied the "Partial Amendments to Accounting Standards for Tax Effect Accounting" (ASBJ Statement No. 28, February 16th, 2018) from the beginning of the first quarter of fiscal year ending March 31, 2019. As a result, deferred tax assets are classified as "Investments and other assets" and deferred tax liabilities are classified as "Long term liabilities" respectively.

(Notes on Business Combinations)

(Business Combination through Acquisition)

(1) Overview of Business Combination

① Name and Business Contents of Acquired Company

Name of acquired company: PFA Corporation

Business contents: Design, manufacture and sales of bonding, assembly and inspection equipment for electronic devices as well as development and sales of various manufacturing software

② Main Reason for Business Combination

PFA Corporation provides mounting and inspection devices for electrical components used in smartphones and automobiles, as well as production technology solutions. With their advanced technology, flexibility, and production capabilities, combined with Shinkawa's high speed, high accuracy bonding technologies, we will be able to provide a full solution for semiconductor post processing, while also increasing competitiveness in the electrical component mounting industry. We expect to bring out strong synergies within the two companies that will result in increasing corporate value.

③ Combination Date

June 1, 2018

④ Method of Combination

Stock acquisition

⑤ Name after Combination

PFA Corporation

⑥ Ratio of Voting Rights Acquired

100%

⑦ Basis for Acquisition

The Company offered cash consideration in exchange for acquisition of 100% of voting shares

(2) Inclusion of the Acquired Company's Results in the Quarterly Consolidated Statements of Income and Comprehensive Income

Due to the acquisition date of June 30th, the results of the acquired company have not been included in the Quarterly Consolidated Statements of Income and Comprehensive Income for the first quarter of fiscal year ending March 31, 2019.

(3) Breakdown of Acquisition Costs and Consideration

Acquisition Consideration	Cash	2,069 million yen
Total Acquisition Costs		2,069 million yen

(4) Major Acquisition Expenses

Advisory expense, commission, etc.	30 million yen
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(5) Goodwill, Cause, Method and Period of Amortization

① Amount of goodwill recorded

570 million yen

② Cause

As a result of the net market value of the acquired firm falling below the acquisition price, goodwill was recorded for the amount of the difference.

③ Amortization method and period of amortization

Goodwill will be amortized following the straight-line method over a period of 5 years.

3. Other

(Notes on Important Events Related to the Going Concern Assumption)

The Group reported an operating loss, ordinary loss and loss attributable to owners of parent in the past consecutive fiscal years, mostly due to prolonged periods of product development and evaluation and a relatively high ratio of fixed cost to net sales. Despite the fact that a profit attributable to owners of parent was recorded for the group's consolidated performance the previous year, net loss is recorded in individual performance. Under such circumstances, the Company experienced important events relating to the going concern assumption.

In an attempt to resolve this situation, the Group established medium-term management plan namely "Challenge Shinkawa 2020" and will be involved in the following initiatives.

1) Growth in existing business

With the arrival of the IoT age, there are various changes in demand for semiconductor packages. The Group promotes the functional enhancement of wire bonders and die bonders to handle the use of SSD data storages and high-speed memories. The Group also promotes the development and sales expansion of flip chip bonders to handle advanced bonding processes such as thermal compression bonding for 3 and 2.5-dimensional bonding applications that are used for memory cubes and the latest CPUs. Furthermore, along with higher functionality of communication devices such as smartphones, the Group enhances the function of flip chip bonders for high-performance packages such as PoP (Package-on-package) and FO-WLP (Fan-out Wafer Level Package).

2) Creating new business value

The Group, under the concept of "Shinkawa Smart Bonding Solution," continues the development of solution technologies that incorporate the IoT function into the semiconductor assembly process. The Group will increase customer satisfaction and its associated value by promoting intelligent machines (with enhanced sensing function), intelligent networks (with enhanced data collection and analysis functions), and intelligent processes (with know-how embedded in software), as well as proposing solutions ahead of challenges triggered by progress of the IoT society.

3) Activating organization and fostering human resources

In order to transform the Group into an organization that demonstrates creativity, it is necessary to secure various talents. In addition to providing a stage where excellent talents from all over the world play an active role, the Group focuses on human resource development including raising employees' awareness.

The Group has an equity ratio of 79.3% and secures sufficient funds by signing an overdraft agreement with our bank to promote business operations in the current consolidated fiscal year. Accordingly, we judge any material uncertainty is not recognized related to the going concern assumption.

4. Supplementary Information

Quarterly Consolidated Performance

Fiscal year ended March 31, 2018 (consolidated)

(Millions of Yen, except "Profit (loss) per Share")

	1Q ended June 30, 2017	2Q ended September 30, 2017	3Q ended December 31, 2017	4Q ended March 31, 2018	FY ended March 31, 2018
Net sales	2,915	4,272	3,321	4,706	15,214
Gross profit	956	1,450	1,095	1,220	4,722
Operating profit (loss)	(412)	90	(209)	(89)	(620)
Ordinary profit (loss)	(363)	171	(157)	(140)	(488)
Profit (loss) before income taxes	(363)	171	(157)	968	619
Profit (loss) attributable to owners of parent	(428)	172	(169)	988	563
Profit (loss) per share (Yen)	(23.55)	9.48	(9.28)	54.34	31.00
Total assets	24,893	25,114	25,750	24,959	24,959
Net assets	21,094	21,567	21,806	21,545	21,545
Orders received	3,136	3,107	3,342	5,005	14,589

Fiscal year ending March 31, 2019 (consolidated)

(Millions of Yen, except "Loss per Share")

	1Q ended June 30, 2018
Net sales	1,865
Gross profit	550
Operating loss	(849)
Ordinary loss	(890)
Loss before income taxes	(892)
Loss attributable to owners of parent	(939)
Loss per share (Yen)	(51.67)
Total assets	25,853
Net assets	20,513
Orders received	2,552